

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-4018

August 24, 2006

R E S O L U T I O N

Resolution E-4018. Pacific Gas and Electric's (PG&E) request to re-open its Non-Firm Service Program is approved for 2006, but not 2007. PG&E's Non-Firm Service Program should be re-opened to Direct Access customers. Customers who enroll in the program in 2006 must do so by September 15.

By Advice Letter 2880-E Filed on August 8, 2006.

SUMMARY

This Resolution partially approves PG&E's request to re-open its Non-Firm Service Program by limiting the re-opening for the remainder of 2006. However, the question of whether those customers that enroll in 2006 can participate again in 2007 will be decided in a process outlined by the Commission in the demand response proceeding. Furthermore, if PG&E wishes to re-open the program to other eligible customers for 2007 it may also do so in the demand response proceeding. PG&E is required to enroll all new 2006 participants in the Non-Firm Service Program by September 15, 2006. PG&E is directed to allow Direct Access customers to enroll in the program in 2006.

BACKGROUND

PG&E's Schedule E-NF, also known as its Non-Firm Service Program, is a voluntary program for customers whose average peak period demand is at least 500 kW. The program, often referred to as PG&E's "Interruptible" program, provides PG&E reductions in customer electricity demand in emergency situations such as a Stage 2 alert. The program is currently closed to new and existing customers of PG&E.

Participants in the Non-Firm Service Program (NF Program) will reduce their loads when requested by PG&E, and in return they receive energy and demand credits.

Participants in the NF Program receive both energy and demand charge credits in both winter and summer seasons. The amount of the credit is based upon the amount of load the participant is willing to be interrupted; the greater the amount of load that is available for interruption, the greater the credit.

In return for those credits, participants must reduce their loads to a contractually-set level, also known as their Firm Service Level (FSL), when PG&E notifies them that load reductions are needed. Participants have 30 minutes to reduce their loads to their FSLs¹ after receiving notification from PG&E, and failure to do so results in the assessment of a penalty for each hour of energy usage in excess of their FSL. PG&E will trigger a Non-Firm event when the California Independent System Operator (CAISO) notifies PG&E of either a system-wide or local operating condition that impairs the ability of the CAISO to meet the demands of PG&E's customers. Typically, the program is triggered when the CAISO issues a Stage 2 alert.

The number of curtailment events cannot exceed one (1) per day, four (4) in a calendar week, and thirty (30) times per calendar year. The duration of the curtailment events cannot exceed six (6) hours each, forty (40) hours per calendar month, and a total of one hundred (100) hours per calendar year.

As of June 30, there were 95 accounts enrolled in PG&E's NF Program, providing approximately 300 MWs² of demand response.

The Base Interruptible Program (E-BIP) is similar to the NF Program

The E-BIP was created in 2001, as a supplement to the NF Program which the Commission decided to close to new participants. The E-BIP has many of the same or similar features as the NF Program: the conditions under which it is triggered, the customer designation of a FSL, the application of penalties for

¹ Each participant determines their FSL and the FSL amount is formalized in a contract between the participant and PG&E. Participants may change their FSLs, and this typically occurs during the annual contract review period, which is between November 1 and December 1.

² The MWs reported here are "subscribed" or enrolled MWs, meaning that they represent an upper bound potential.

energy used in excess of the FSL during a curtailment event, and limitations on the number of times and hours that the program can be triggered.

The E-BIP differs from the NF Program in one significant way: E-BIP provides participants a monthly payment based on the customer's monthly potential load reduction amount³. E-BIP essentially provides a capacity payment for the demand response made available by participants, but does not provide an energy credit like the NF Program.

As of June 30, there were 21 accounts enrolled in PG&E's E-BIP, providing approximately 24 MWs of demand response.

PG&E proposes to re-open the NF Program with the intention of increasing enrollment and thereby enhancing the amount of demand response for the remainder of 2006 and for 2007.

Via AL 2880-E, PG&E proposes to re-open the NF Program to eligible customers through the end of 2007. As noted above, the program is currently closed to new and existing customers of PG&E.⁴ PG&E argues that opening the NF Program could increase the amount of demand response available this summer and in 2007, and given the extended heat wave experienced by the state in July, obtaining additional demand response resources is appropriate.

PG&E proposes to maintain, or if ordered, to increase the current incentive levels in both the NF Program and the E-BIP through 2007.

In AL 2880-E, PG&E states that in its 2007 General Rate Case Phase 2 Application (A.06-03-005), it has proposed to convert all NF Program participants to the E-BIP program by January 1, 2008.⁵ AL 2880-E does not propose any changes to

³ For example, during the summer (May 1 – October 31) the customer's monthly potential load reduction is the difference between the customer's average monthly on-peak period demand and the customer's FSL.

⁴ D.01-04-006 declined to open the IOUs' Interruptible tariffs to additional customers, but adopted several alternative programs for customers to participate in, such as E-BIP.

⁵ The conversion is being proposed in compliance with D.05-04-053 which ordered that the rate discount in the NF Program be converted to the reservation payment under E-BIP.

that proposal. PG&E makes mention of its GRC proposal in its advice letter to clarify that if a customer is allowed to enroll in the NF Program this summer, it shall be treated the same as existing NF Program participants in that the program will remain intact through 2007. PG&E wants new customers that sign up for this year to have the same benefit next year. PG&E believes that customers would likely not sign up for just the remainder of the 2006 because of the impacts and effects on their operation.⁶

In AL 2880-E, PG&E also proposes to increase, if ordered, the current incentive levels for both the NF Program and E-BIP. However, PG&E provides no additional detail or recommendation for a specific increase amount that it believes could attract more participants.

NOTICE

Notice of AL 2880-E was made by publication in the Commission's Daily Calendar. PG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A and served on the demand response service list (A.05-06-006) on August 8. On August 14, the Commission's Executive Director directed PG&E to also serve AL 2880-E on the following additional service lists: A.05-01-016, A.04-06-024, R.00-10-002, and A.06-03-005. These other proceedings include PG&E's General Rate Case where interruptible tariff participation has traditionally been a key issue.

PROTESTS

In its advice letter filing, PG&E requested a shortened protest period and on August 14 the Commission's Executive Director determined that protests were due on August 17 with replies due on August 18.

Advice Letter 2880-E was protested by the Division of Ratepayer Advocates (DRA) on August 15, 2006. The Direct Access Customer Coalition (DACC) and the Alliance for Retail Energy Markets (AReM) filed comments on August 17,

⁶ PG&E data response to Energy Division data request, August 17, 2006.

2006 in support of AL 2880-E, but also suggested specific modifications to PG&E's proposal.

PG&E filed a reply to DRA's protest on August 18, 2006.

DISCUSSION

PG&E's NF Program should be re-opened to customers for the remainder of 2006, but not 2007.

DRA's Protest

In its protest, DRA does not object to PG&E re-opening its NF Program for the remaining months of summer 2006, but believes that any changes to the NF Program for 2007 should be addressed via the process described in an August 9, 2006 Assigned Commissioner's Ruling (ACR) issued in the demand response proceeding (A.05-06-006 et. al.). That ruling directs PG&E (as well as Southern California Edison (SCE) and San Diego Gas & Electric (SDG&E)) to propose expansions of their existing demand response programs for the purpose of increasing demand response for summer 2007.⁷

DRA argues that any changes to demand response programs for 2007 should be deferred until there is a complete assessment of all demand response programs and their budgets, which would result in the Commission selecting the most appropriate programs to meet any heat wave challenges in 2007. DRA believes that the process outlined in the August 9 ACR is the appropriate place for that assessment to occur.

PG&E's Reply to DRA's Protest

PG&E opposes DRA's position on the grounds that a limited re-opening of the NF Program for the remaining months of 2006 is unfair and contrary to the goal of encouraging enrollment. PG&E argues that if DRA's proposal is adopted, newly enrolled customers would not be allowed to continue in the program in 2007 while all the existing customers in the NF Program would be allowed to continue. PG&E also believes that a limited re-opening of the NF Program is unlikely to attract customers because there is a significant and operational

⁷ The utilities have been specifically directed to file their proposals by August 30, which will be followed by a public workshop on September 6.

commitment that the customer must make to be on the program, and many are unlikely to make that commitment for only a few months.

DACC and AReM oppose DRA's proposal for the same reasons as expressed by PG&E.

Energy Division's Recommendation

Energy Division concludes that the Commission should limit PG&E's re-opening of the NF Program to just 2006 and that all new participants in the program must be enrolled by September 15. PG&E argues that the Commission should re-open the NF Program for both 2006 and 2007 because customers are unlikely to sign up for just 2006 because there are operational commitments that the customer must make to be on the program. Essentially PG&E has placed the following trade-off before the Commission: in order to get additional demand response for the remainder of 2006, it must allow customers to also sign up for 2007 now, which would allow the question of re-opening the NF Program to side-step the process outlined in the August 9 ACR.

Energy Division is open to supporting exceptions to the 2007 process as outlined in the August 9 ACR if it was presented a compelling proposal that demand response for 2006 could be obtained in exchange for the exemption. PG&E has not presented a compelling proposal. In response to a data request from the Energy Division, PG&E states,

PG&E has no way of knowing how much extra load would sign up for the program. Anecdotally, PG&E has heard over the years that numerous large customers are interested in the Non-Firm program and have expressed interest in participating if it were it to reopen. Given the lateness of this summer season, and uncertainty about the future of the program, it is difficult to translate this interest into a forecast of actual sign-up. An informal poll of PG&E major account representatives in the field indicates there could be interest from load representing as much as 45 MW of demand (of which, approximately 5% of this load may be transferred into Non-Firm from other existing programs), but how much of that load would actually sign up is not known.

PG&E's response does not provide a convincing assurance to the Commission that a significant amount of demand response will materialize in 2006 as a result of re-opening the NF Program. Energy Division's skepticism is furthered by the

issue of timing: any additional demand response would be of nominal use to PG&E this year if it was obtained towards the end of September or later (when emergency conditions such as heat waves are less likely to occur). In response to an Energy Division data request, PG&E states the following:

Following approval of the reopened program, PG&E estimates that it will take a minimum of two weeks before getting any new customers enrolled in the Non-Firm program. PG&E would need to inform customers of the re-opening of the program, work with them to get a contract signed, and then ensure the completion of the terms and conditions of the contract (for example, installation and operation of communication, notification equipment, etc.).

Based on PG&E's estimate, the earliest that PG&E can enroll a customer in the NF Program would be at the end of the first week of September. PG&E does not say that all potentially interested customers will be enrolled by that time, but that two weeks is the earliest one could expect any customer to be enrolled. Energy Division believes that while PG&E may make its best efforts to enroll customers as expeditiously as possible, interested customers have little incentive to enroll quickly. In fact, it is in the interest of customers to delay enrollment until the end of September when the potential threat of heat waves diminish and thus the chances of being called for an interruption are reduced. Such customers would receive the benefit of reduced rates for the remainder of the year in exchange for providing only marginal value to the rest of PG&E's ratepayers (interruptible capacity in October, November and December).

The trade-off as presented by PG&E's advice letter – approve now its proposal to re-open the Non-Firm Program for 2006 and 2007 and thereby bypass the process established in the August 9 ACR on the grounds that an approval today enables more demand response MWs in 2006 - should be rejected by the Commission. The potential MWs that could be obtained by PG&E in 2006 are highly speculative in Energy Division's opinion. .

Because of the need to address PG&E's proposal by the August 24 Commission meeting, public review of PG&E's advice letter has been expedited. The Commission's Executive Director allowed for a shortened protest period on the advice letter. Although no one has filed a request for a late protest, and the utility and representative s of the key affected groups have participated in Energy Division's review of the advice letter., Energy Division believes that a

more thorough review of re-opening the NF Program for 2007 is appropriate, and that the Commission has established a process for that to occur.⁸

Energy Division concludes that PG&E's proposal to re-open the NF Program should be limited to just 2006 with an additional modification that new participants must be enrolled by September 15. This modification will ensure that the new participants' interruptible capacity will be of use for the remainder of this year's summer. Otherwise, customers will be apt to wait until summer is over before they enroll. In addition, the question of whether those customers that enroll in 2006 can participate again in 2007 should be decided in the process outlined by the Commission in the demand response proceeding.

Energy Division's recommended rejection of PG&E's proposal is without prejudice with respect to the merits of the proposal for 2007. PG&E may submit its proposal to re-open the Non-Firm Program for 2007 via the process provided in the demand response proceeding (A.05-06-006).

PG&E's NF Program should be re-opened to Direct Access customers for the remainder of 2006.

DACC and AReM state if the Commission authorizes re-opening of the NF Program, it should clarify that Direct Access (DA) customers should be allowed to participate. In its reply comments, PG&E indicates support for the inclusion of DA customers should the program be re-opened. Energy Division supports the inclusion of DA customers for 2006 and recommends that PG&E file revised tariffs to incorporate the participation of these customers.

COMMENTS

Public Utilities Code section 311(g) and Rule 77.7 of the Commission's Rules of Practice and Procedure generally require a 30 day public review and comment

⁸ The August 9 ACR directs the IOUs to submit their demand response expansion proposals by August 30. The IOUs are permitted to file advice letters with demand response expansion proposals in advance of August 30, but must provide a rationale why those proposals require an expedited review. In either case, Energy Division believes that the review process for an IOU proposal will be more thorough than the review conducted for PG&E AL 2880-E.

period on draft resolutions. However, pursuant to section 311(g)(3) and Rule 77.7(f), this period may be reduced where "public necessity" requires reduction of the 30-day period. "Public necessity" refers to circumstances in which the public interest in the Commission adopting a resolution before expiration of 30 days clearly outweighs the public interest in having the full 30-day period for review and comment.

Here the public interest in adopting this resolution before expiration of a 30-day review and comment period is the potential avoidance of rotating outages, which can impact public health and welfare. The resolution addresses changes to a demand response program, which could lead to higher amounts of available demand response this summer. The heat wave in July 2006 resulted in unprecedented demand and strained the electrical grid. Demand response programs lower system demand during critical periods like the July heat wave and can play a role in averting rotating outages. This clearly outweighs the public interest in having a full 30-day period for review and comment. Having a full 30-day period for review and comment will delay the Commission's action on this resolution which is not in the public interest as there is the possibility of heat waves for the remaining summer months. Furthermore, the resolution addresses one pre-existing voluntary program and the changes do not negatively impact participants in that program.

Accordingly, on August 14 this matter was placed on the Commission's agenda of August 24, 2006. On August 21 this resolution was served for public comment on the parties on the following service lists: A.05-06-006, A.05-01-016, R.00-10-002, and A.06-03-005. Comments were due on August 22, 2006. No comments were received on the draft resolution.

FINDINGS

1. PG&E's Schedule E-NF, also known as its Non-Firm Service Program, provides PG&E reductions in customer electricity demand in emergency situations such as a Stage 2 alert. The program is currently closed to new and existing customers of PG&E.
2. Via Advice Letter 2880-E, PG&E proposes to re-open the NF Program with the intention of increasing enrollment and thereby enhancing the amount of demand response for the remainder of 2006 and for 2007.

3. DRA does not object to PG&E re-opening its NF Program for the remaining months of summer 2006, but believes that any changes to the NF Program for 2007 should be addressed via the process described in an August 9, 2006 Assigned Commissioner's Ruling (ACR) issued in the demand response proceeding (A.05-06-006 et. al.).
4. The August 9 ACR directs PG&E (as well as Southern California Edison (SCE) and San Diego Gas & Electric (SDG&E)) to propose expansions of their existing demand response programs for the purpose of increasing demand response for summer 2007. The utility proposals are due on August 30, followed by a workshop on September 6 and intervenor comments due on September 15.
5. PG&E opposes DRA's position on the grounds that a limited re-opening of the NF Program for the remaining months of 2006 is unfair and contrary to the goal of encouraging enrollment.
6. PG&E does not provide a convincing assurance to the Commission that a significant amount of demand response will materialize in 2006 as a result of re-opening the NF Program.
7. Energy Division believes that while PG&E may make its best efforts to enroll customers as expeditiously as possible, interested customers have little incentive to enroll quickly. In fact, it is in the interest of customers to delay enrollment until the end of September when the potential threat of heat waves diminish and thus the chances of being called for an interruption are reduced.
8. The trade-off as presented by PG&E's advice letter - approve now its proposal to re-open the NF Program for 2006 and 2007 and thereby bypass the process established in the August 9 ACR on the grounds that an approval today enables more demand response MWs in 2006 - should be rejected by the Commission. The potential MWs that could be obtained by PG&E in 2006 are highly speculative in Energy Division's opinion.
9. Energy Division believes that a more thorough review for re-opening the NF Program for 2007 is appropriate, and that the Commission has established a process for that to occur.

10. Energy Division concludes that PG&E's proposal to re-open the NF Program should be limited to just 2006 with an additional modification that new participants must be enrolled by September 15. This modification will ensure that the new participants' interruptible capacity will be of use for the remainder of this year's summer. Otherwise, customers will be apt to wait until summer is over before they enroll. The question of whether those customers that enroll in 2006 can participate again in 2007 should be decided in the process outlined by the Commission in the demand response proceeding.
11. Energy Division's recommended rejection of the remainder of PG&E's advice letter is without prejudice with respect to the merits of the proposal for 2007. PG&E may submit its proposal to re-open the Non-Firm Program for 2007 via the process provided in the demand response proceeding (A.05-06-006).
12. Energy Division supports the inclusion of DA customers for 2006 and recommends that PG&E file revised tariffs to incorporate the participation of these customers.
13. Demand response programs lower system demand during critical periods like the July heat wave and can play a role in averting rotating outages. This clearly outweighs the public interest in having a full 30-day period for review and comment.

THEREFORE IT IS ORDERED THAT:

1. The request of Pacific Gas & Electric to re-open Schedule E-NF as requested in Advice Letter AL 2880-E is partially authorized as follows (and as further described in the text of this resolution):
 - Schedule E-NF shall be re-opened only for the remainder of 2006. Customers must be enrolled by September 15.
 - The question of whether 2006 enrollees will be allowed to participate on Schedule E-NF thereafter should be determined in the demand response proceeding A.05-06-006.
 - Direct Access customers should be allowed to participate in Schedule E-NF for the remainder of 2006.

2. Pacific Gas & Electric shall file revised tariffs via supplemental advice letter to reflect the modifications as adopted in this resolution within five days of the effective date of this resolution. The tariffs shall be effective as of the date of their filing contingent upon Energy Division's determination that the tariffs comply with this resolution.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on August 24, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners